

17th Annual FDIC/JFSR Bank Research Conference

Runs, Repos, and Reporting

Discussion by

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The Message

Runs occur in uninsured instruments

and are now a wholesale rather than retail phenomenon

Runs affect nonbanks such as hedge funds

but are the mechanics comparable?

Beneficial disclosure might be lead to runs

neat example of the law of unintended consequences

- Papers shine a light on an under-researched corner of the financial system: short-term funding
 - origins, dynamics, and consequences of brittleness
 - what about CP, securities lending, and fed funds?

What a Difference a Year Makes

Repo's Rise and Fall

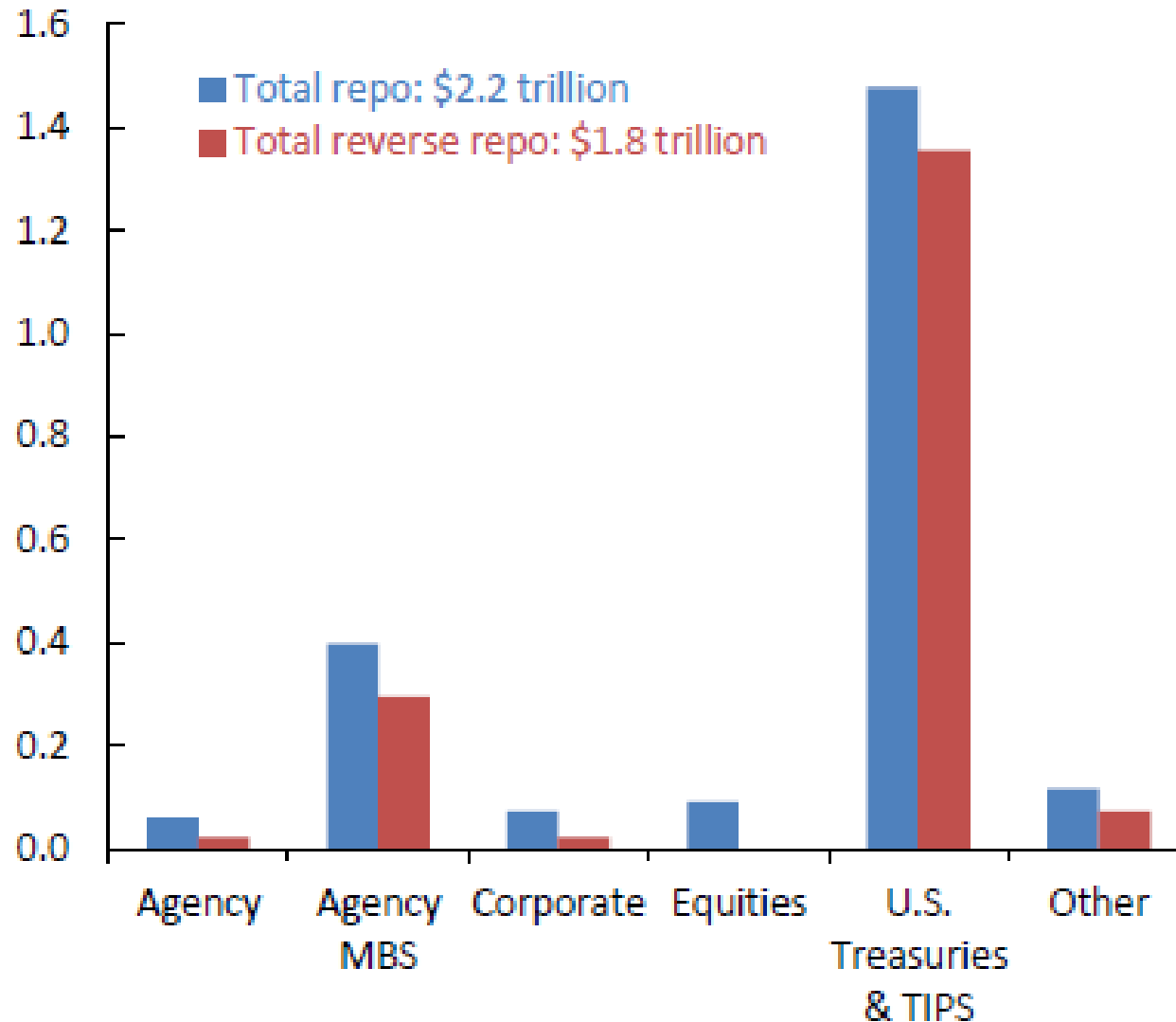
Estimated value of securities loaned, globally



Figures are for first day of each month

BloombergQuickTake

Repo Activity: Baklanova et al. (2015)



Donaldson and Piacentino

- Bank debt can be demandable (= collateralized), tradeable (= secondary market), or both (= repo)
 - Frictions in secondary market affect trade-mandable debt and can lead to runs: maturity horizon mismatches
 - If not: bond finance; but where do frictions come from?
- Debt and bank capital-structure design
 - Demandable & tradable debt optimal: banknotes combined with particular market microstructure
 - small frictions lead to huge inefficiencies: welfare effects?

Observations

- Interpretation and terminology: causal direction
 - Banknotes, runs: are they really equivalent to repos?
- Make frictions explicit: origins unclear
 - Horizon mismatch: maturity transformation
 - Search parameters: cost, matching probability
- Rich framework: make more of the model
 - When is each debt type optimal?
 - Related markets: CP, securities lending, and fed funds
 - Reverse spillovers: collateral affecting tradeability

Robustness

- Equilibrium selection
 - Why focus on this particular equilibrium?
 - Lots of parameters: what do they mean, how do they relate to each other? Economic interpretation?
- Secondary markets = Nash bargaining: too stylized
 - What about a standard market-making framework?
- Policy implications: how to reduce frictions?
 - What about a market-maker of last resort such as the Fed?
- What is a run in this model? Economic mechanism?
 - Coordination failure: liquidity shock
 - Contagion: conditioning error or informational friction

Auh and Yun

- Case study of the dynamics of a particular “run”
 - Hedge Fund X financing operations: open (vs term) repos
 - 16 lenders: a run? E.g. Countrywide’s CP in Aug 2007
 - Focus on changes in margin (= haircut)
- Tension between patience (= forbearance) and credit supply (= risk management)
 - Margin exhibits U-shaped pattern: explanation?
 - Nice feedback effect between collateral quality and lender incentives which lead to inefficient liquidation
- Economic foundations and hypothesis development
 - Be more ambitious: (dis)similarities to banking?

Concerns

- All the action in the repo market is in margins?
Take a deeper look at related quantities such as
 - Rates: interesting demand-price-supply dynamics
 - Collateral quality: general vs. special collateral
- Case study: how and why do results generalize?
 - Shadow financial system: even more important
 - Asset-backed commercial paper: collateral quality
- What is the central economic question here?
 - Policy implications?

Dang and Helwege

- Disclosure cuts both ways: stress testing banks
 - Affects precision of investors' valuation but
 - might also trigger runs or regulatory action
- Investigate benefits and costs of disclosure
 - Slightly increases the likelihood of equity placement
 - But at the price of losing uninsured deposits: run?
- Set in the subprime crisis: commercial banks
 - Large, publicly traded bank-holding companies
 - Just the right amount of transparency and opaqueness

Comments

- Measuring disclosure, failure, and equity issues:
 - SEC filings: mentions of potential RE losses
 - Z-scores = default: CDS, spreads, KMV-Merton, etc.
 - Equity issuance: probability vs amount and price
- Sequential nature of events: statistical effect?
 - Bad news → disclosure → withdrawal → equity issue
 - Effect on interbank borrowing, bond issuance?
 - Selectivity issues? Nature of bad news
- Policy implications? Critique of stress tests

Runs, Repos, and Reporting

- Notion of a traditional bank run might not carry over to wholesale or corporate liquidity squeezes
- Distinguishing features? Economic mechanisms?
 - Insurance vs guarantee (= collateral): brittle markets
- Interpretation and terminology becomes crucial
 - repo: secured lending with overcollateralization
 - run: Diamond and Dybvig vs. the real world
 - collateral: hard to value and liquidate (firesales)
 - price: as unimportant as the papers seem to argue?

UST Repo Activity: Bowman et al. (2017)

Overnight Treasury Repo Volumes

